

## Message Text

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PAGE 01 LAGOS 06867 260717Z

21

ACTION AF-18

INFO OCT-01 ISO-00 AEC-11 AID-20 CEA-02 CIAE-00 CIEP-03

COME-00 DODE-00 EB-11 FPC-01 H-03 INR-11 INT-08 L-03

NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01 SCI-06

SP-03 SS-20 STR-08 TRSE-00 FRB-03 FEA-02 DRC-01 /152 W

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R 251530Z JUL 74

FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 5189

C O N F I D E N T I A L LAGOS 6867

E.O. 11652: GDS

TAGS: ENRG, NI

SUBJECT: AMERICAN COMPANIES WEIGHT EFFECTS OF INCREASED  
PETROLEUM ROYALTY

REF: LAGOS 6753

1. HOME OFFICES OF AMERICAN OIL COMPANIES AFFECTED BY RECENT INCREASE FROM 10 TO 14.5 PERCENT IN THE RATE OF ROYALTY FROM OFFSHORE OIL PRODUCTION IN NIGERIA ARE STUDYING THE FINANCIAL AND LEGAL CONSEQUENCES AND TRYING TO DECIDE IF THE FEDERAL MILITARY GOVERNMENT SHOULD BE ASKED TO RECONSIDER ITS DECISION AND RETAIN QDUAL RATES. IR

2. OFF-THE-RECORD SOURCE IN ONE OF THE US COMPANIES (FYI ONLY MOBIL) CALCULATES (AS DID EMBASSY; SEE REFTEL PAR 5) THAT TAX PAID COST FOR OFFSHORE PRODUCERS WOULD RISE ABOUT 30 CENTS PER BARREL VS. RISE OF 13-14 CENTS FOR BASICALLY ONSHORE PRODUCERS SUCH AS SHELL-BP. HE BELIEVES THAT TAX PAID COST OF HIS COMPANY'S OIL WAS ALREADY GREATER BY SMALL AMOUNT THAN THAT OF SHELL-BP. ADDITIONAL 16-1/2 CENT DIFFERENCE WOULD IMPOSE CONSIDERABLE COMPETITIVE DISADVANTAGE TO THE AMERICAN COMPANIES WHICH ARE SELLING THE SAME OIL AS SHELL-BP AT THE SAME LOCATION.  
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PAGE 02 LAGOS 06867 260717Z

(DIFFERENCE OF 16-1/2 CENTS PER BARREL TIMES COMAPNIES' 45 PER CENT

SHARE OF CURRENT OFFSHORE PRODUCTION WOULD AMOUNT IN ONE YEAR TO NEARLY \$18 MILLION.)

3. SAME SOURCE SEES NO EVIDENCE THAT FMG DECISION IN ANY WAY DIRECTED AGAINST AMERICAN COMPANIES BECAUSE THEY ARE AMERICAN. HE LISTED AS POSSIBLE REASONS (1) DIMINISHED APPRECIATION OF ORIGINAL REASONS FOR DUAL RATE (INCENTIVE FOR OFFSHORE EXPANSION), (2) DESIRE TO SIMPLIFY COLLECTION PROCEDURES AND PUT ALL PRODUCERS UNDER SAME FISCAL REGIME, (3) VAGUE IDEA EMBODIED IN OPEC COMMUNIQUE FOR UNIFORMITY AND (4) YET ANOTHER SMALL WAY TO INCREASE GOVERNMENT REVENUE. HE SAID THE SUMMARY INCREASES IN ROYALTY RATES WERE CLEARLY INCONSISTENT WITH THE PETROLEUM DECREE OF 1969 AND EACH COMPANY'S LEASE AGREEMENT, BUT THE COMPANIES WOULD MOST PROBABLY ACCEPT THE TWO PERCENT ONSHORE INCREASE AS INEVITABLE. HIS ONLY DOUBT CONCERNED HOW HIS COMPANY WOULD REACT TO THE ADDITIONAL 2.5 PERCENTAGE POINTS AFFECTING OFFSHORE PRODUCTION.

4. EMBASSY EMPHASIZES NECESSITY OF PROTECTING SOURCE OF FOREGOING OBSERVATIONS. IT WOULD BE VERY EMBASSASSING TO HIM AND TO THE EMBASSY IF HIS COMPANY'S NAME IN ANY PUBLIC USE OF THE INFORMATION HE CONVEYED.  
REINHARDT

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## Message Attributes

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